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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP. COM. DIV.
DOCKET CONTROL

Date: July 23, 2003

RE: ROCKY LAKE WATER COMPANY - APPLICATION FOR APPROVAL OF
THE SALE OF ASSETS AND CANCELLATION OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY. (DOCKET NO. W-01498A-03-0353)

Attached is the Staff Report for Rocky Lake Water Company's application for the Sale of Assets and Cancellation of its Certificate of Convenience and Necessity. Staff recommends approval of the sale of assets and cancellation of the Certificate of Convenience and Necessity.

Originator: Jim Fisher

Arizona Corporation Commission
DOCKETED

JUL 23 2003

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Service List for: Rocky Lake Water Company
Docket No. W-01498-03-0353

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ROCKY LAKE WATER COMPANY

APPLICATION FOR APPROVAL OF THE SALE
OF ASSETS AND CANCELLATION OF ITS CC&N

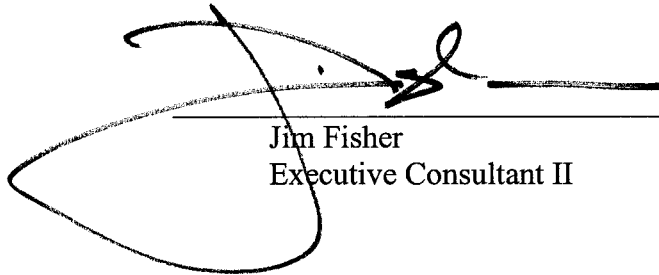
DOCKET NO. W-01498A-03-0353

July 2003

STAFF ACKNOWLEDGEMENT

The Staff Report for Rocky Lake Water Company (Docket No. W-01498A-03-0353) was the responsibility of the Staff member listed below. Jim Fisher was responsible for the review and analyses of the Company's application.

Contributing Staff:



Jim Fisher
Executive Consultant II

**EXECUTIVE SUMMARY
ROCKY LAKE WATER COMPANY
DOCKET NO. W-01498A-03-0353**

On May 30, 2003, Rocky Lake Water Company ("Rocky Lake" or "Company") filed an application with the Arizona Corporation Commission ("ACC") requesting approval of the sale of assets to Gila Resources, Inc. ("Gila Resources") and Cancellation of its Certificate of Convenience and Necessity ("CC&N").

Rocky Lake is an Arizona "S" corporation authorized to provide water service to certain portions of Graham County pursuant to authority granted by the ACC in Decision No. 32064 (February 3, 1960). The Company is located near the city of Safford, serving approximately 410 customers.

By this Application, Rocky Lake is seeking Commission authorization for the sale of assets to the Gila Resources, an Arizona non-profit corporation and wholly-owned affiliate of the City of Safford.

On May 24, 2003, Rocky Lake and Gila Resources signed a Purchase Agreement which provides that Gila Resources District shall pay the Company \$1,150 for each connection on the water system at the time of closing. According to Section 1.3, Assumed Liabilities, Gila Resources will assume and pay all obligations and liabilities of Rocky Lake, including meter advance credit, customer deposits and refundable main extension agreements.

The Arizona Department of Environmental Quality regulates the Company as a public water system and reported that the system has monitoring deficiencies, but that no compliance or enforcement action is pending. The Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

Staff recommends that the Commission approve Rocky Lake Water Company's application for the sale and transfer of its assets to Gila Resources, Inc., an Arizona non-profit corporation.

Staff further recommends that the Commission cancel Rocky Lake Water Company's CC&N subsequent to the closing of the sale and transfer of its assets to Gila Resources, Inc., an Arizona non-profit corporation.

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Introduction

On May 30, 2003, Rocky Lake Water Company ("Rocky Lake" or "Company") filed an application with the Arizona Corporation Commission ("ACC") requesting approval of the sale of assets to Gila Resources, Inc. ("Gila Resources") and Cancellation of its Certificate of Convenience and Necessity ("CC&N").

Background

Rocky Lake is an Arizona "S" corporation authorized to provide water service to certain portions of Graham County pursuant to authority granted by the ACC in Decision No. 32064 (February 3, 1960). The Company is located near the city of Safford. The Company is currently serving approximately 410 customers. According to Rocky Lake's last Annual Report to the ACC, the Company obtained \$116,095 in revenue, resulting in net income of \$5,593.

Rocky Lake's current rates were authorized in Decision No. 64009 (September 4, 2001). On August 22, 1994, the Company filed a Backflow Prevention Tariff in accordance with Commission policies. On March 4, 2003, Rocky Lake filed a Curtailment Tariff per Commission standards.

By this Application, Rocky Lake is seeking Commission authorization for the sale of assets to the Gila Resources, an Arizona non-profit corporation and wholly-owned affiliate of the City of Safford.

The Transaction

On May 24, 2003, Rocky Lake and Gila Resources signed a Purchase Agreement which provides that Gila Resources District shall pay the Company \$1,150 for each connection on the water system at the time of closing. The parties agree that \$166.50 per connection represents the tangible assets, and \$983.50 per connection represents the intangible value the buyer assigns the net present value of future cash flows. Both parties agree to report the purchase for income tax purposes consistent with the agreed allocation. At close of the transaction, the title to the assets will pass to Gila Resources.

According to Section 1.3, Assumed Liabilities, Gila Resources will assume and pay all obligations and liabilities of Rocky Lake as set forth in Schedule 1.3 of the Purchase Agreement. Schedule 1.3 lists meter advance credits of \$22,480, customer deposits of \$9,274 and main extension agreements. Rocky Lake has three main extension agreements currently being refunded per the terms of the agreement.

According to Article VII of the Purchase Agreement, Section 7.1.1.6, Rocky Lake agrees that all customer deposits and meter advances shall be credited against the purchase price, rather than deposited into escrow.

ACC Compliance

A check with the Utilities Division, Compliance Section showed no outstanding compliance issues for the Company.

Arizona Department of Environmental Quality (ADEQ) Compliance

ADEQ regulates the water system under ADEQ Public System I.D. # 05-004. On June 6, 2003, ADEQ reported that the system has monitoring deficiencies, but that no compliance or enforcement action is pending.

Recommendations

Staff recommends that the Commission approve Rocky Lake Water Company's application for the sale and transfer of its assets to Gila Resources, Inc., an Arizona non-profit corporation.

Staff further recommends that the Commission cancel Rocky Lake Water Company's CC&N subsequent to the closing of the sale and transfer of its assets to Gila Resources, Inc., an Arizona non-profit corporation.